

Ukraine as market economy: symbol, sign or mistake?

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Early in the morning on October 10, 2000, citizens of Ukraine could have woken up in a different country, without even realizing it. However, the wonder that the Ukrainian government longed for did not happen overnight.

The news that had been expected by many for years flashed the Ukrainian information environment and was interpreted by the Ukrainian officials in a way that suggested that on October 10, 2000, the Council of Ministers of the European Union had recognized Ukraine as being a market economy. The information was announced by Deputy Minister of Economy Andriy Honcharuk (Interfax-Ukraine, October 11, 2000). It was also announced that the statement would be published in the EU Council of Ministers' official bulletin shortly.

Ukraine was not the only distinguished new "market economy" in the list: the same decision applied to Albania, Georgia, Kazakhstan, Kyrgyzstan, Mongolia and Vietnam. The EU's decision, as interpreted by the Ukrainian official, looked optimistic, though unexpected. Remarkably, none of Ukraine's top-ranking officials who normally comment on Ukraine's reform efforts have recently claimed that Ukraine had made significant progress and was a "market economy".

The initial suspicion was that the EU's decision was politically motivated and resembled, most of all, a sympathy prize to Ukraine for its remarkable geo-strategic situation and careful multi-vector policies in the changeable political realities of the CIS. It coincided in time with noteworthy ideological and political changes in the CIS political landscape, reflected not only by the worrying alterations of symbols of statehood (like the re-adoption of the former Soviet national anthem by the Russian Federation, to the same melody but different lyrics, likely to be approved at the Russian Security Council's session on November 22, 2000). The EU's decision was made public exactly when the "ghost" of a new Union appeared over the CIS. The summit of the Russian, Belarussian, Kazakh, Tajik and Kyrgyz presidents in the capital of Kazakhstan, Astana, declared the establishment of a "new economic union", officially referred to as the Eurasian Economic Community (EEC). Members of the new EEC announced plans for abolishing import duty to ensure free movement of goods, and take every effort to promote integration of the five states. The latter has already provoked skeptical comments of those who remember the ineffective performance in that area of the EEC's predecessor, the Customs Union. The new formation's integration committee is co-chaired by first vice prime ministers of the five states. Symbolically in the context of the EEC's future, the first comment on the role of the "solid formation" was made by Russian Vice Prime Minister Victor Khristenko: "Some time will pass by, and the EEC as well, will, probably, grow the muscles [like those of] the European Union." Given the depressed condition of the new Union member states' economies, the statement can be treated with polite understanding, but it is clear today that the new Union formation demonstrates Russia's growing domination in the Central Asian region and the CIS as a whole. Paradoxically, it also makes yet another crack on the much-challenged CIS. Presidents of Ukraine and Uzbekistan, who discussed the EEC at Leonid Kuchma's visit to Tashkent on October 12, 2000, saw the new formation as undermining the CIS. Their attitude was also reflected in the expressed shared opinion that the "economic union" was based primarily on the Customs Union, which had proved being completely inadequate and even harmful for six years of its existence (UT-1, October 12, 2000).

Apparently, the Ukrainian leadership sees the "Eurasian" direction of some of its partners within the CIS as an attempt to make a closer-knit alliance without "the others". President Leonid Kuchma was quoted by the media as saying "I thought that any process that is going on within the CIS, even such as the one that took place in Astana, should not bypass all [other countries] <...> each of us keeps asking why he was not invited" (UT-1, October 12, 2000).

The recent developments brought forth yet another significant issue. The theme of the GUUAM, regarded as almost doomed by many experts some time ago, got a new spark of life at the meeting in Uzbekistan. Specifically, the Ukrainian president and his Uzbek counterpart announced that other members of the GUUAM would be urged to join the effort of making the group's work more effective and develop it from an informal alliance to an official, institutionalized entity. In fact, there are some good reasons for making such statements. The changing attitude to the GUUAM was manifested by the demonstrative meeting of the GUUAM heads of state during the UN Millenium Summit in New York in early September 2000. Then Leonid Kuchma stated for the first time that "nowadays we have reached understanding that we need to act within the framework of the organization" for "so far all talks about creating a free trade zone within the CIS have remained nothing but talks. Meanwhile,

nowadays none of us has any doubts that the way to the future goes through the creation of a free trade zone" (Vechirniy Kyiv, September 8, 2000). Hence, the alliance that initially appeared to have some "anti-Russian" defense flavor (though vigorously denied by all of its founders) is gradually gaining economic footing. For Ukraine, the tilt towards economic relations within the GUUAM is motivated primarily by the hopes to develop a common transportation corridor. During the Tashkent summit, Presidents Kuchma and Karimov agreed to "contribute, in all ways, to the functioning of the Europe-Caucasus-Asia transportation and communication system". Similar opinion about giving a stronger role to economic relations within the would-be organization was expressed by President of Azerbaijan Geidar Aliyev, who agreed that the meeting in New York had laid the foundation for a new stage of the GUUAM's activity. It is expected that the "new stage" of the GUUAM's development will be economic integration similar to the EU model. At the recent meeting in Tashkent, Leonid Kuchma added to the speculations about the future of the GUUAM by announcing that Bulgaria and Romania had also spoken in favor of joining the GUUAM. Presently it is still unclear what Bulgaria and Romania, eager to jump on the "second train" to the EU, think about the new prospect, but the intention to involve South-East European countries to the organization suggest a new development of relations within it and the growing importance of economic factors that begin to prevail over purely political considerations. Back to the issue of the new status suddenly granted to Ukraine by the EU, one may note that the specific "consolation prize" as a soothing tool: the EU's decision coincided in time with the Russian Gazprom's successful efforts to lobby the European Commission and push the project of building a major pipeline that would bring gas to the EU states bypassing the territory of Ukraine. Although Ukrainian Minister of Fuel and Energy Serhiy Yermilov is skeptical about such prospects (obviously sad for Ukraine) and claims he knows nothing about European consumers' intention to finance the construction of the pipeline bypassing Ukraine through the territory of Belarus because "that is a personal wish of the head of the Russian Gazprom Rem Vyakhirev" (Ukraina Moloda, October 11, 2000) the challenge does exist in the mid-term. Presumably, some US\$ 50 billion could be allocated for financing the Russian pipeline project, the construction of which can seriously hinder Ukraine's role as a traditional gas transit state.

Meanwhile, in the context of the recent announcement of the EU's decision to upgrade Ukraine's status, there was a worrying and unusual silence of Ukraine's leadership. Before, even far less significant economic events and achievements in relations with the EU were commented on eagerly and extensively. This time none of the top officials made any public statements, except Deputy Minister of Economy and former Minister of Foreign Economic Relations and Trade Andriy Honcharuk who announced that "the recognition of Ukraine as a country with market economy will substantially improve, among other things, our state's positions in consideration of antidumping cases by the European Union" (Fakty i Kommentarii, October 12, 2000). On behalf of the Ukrainian parliament, hopeful but moderately optimistic comments on broadening the state's trade and economic opportunities in the near future were offered to the Interfax-Ukraine by head of the parliament's committee for foreign affairs Ihor Ostash, MP (Interfax-Ukraine, October 12, 2000).

Notwithstanding the obvious reason to be glad, the government kept quiet - probably because of the initial misunderstanding of the EU's decision on Ukraine. On the same day, October 12, the parliament's official newspaper wrote that "The Council of Ministers of the European Union approved the decision to grant a special status of a market economy in anti-dumping investigations to seven post-Socialist states, including Ukraine" (Holos Ukrainy, October 12, 2000). The new status means much more freedom of access to European markets for our exporters and substantial limitation of tough antidumping provisions.

Naturally, granting a status of "a country with market economy" is not the same as the "special status of a market economy in anti-dumping investigations". However, it appears that the "slight difference" was at first overlooked by the government officials. The session of the Cabinet of Ministers, held on October 11, the day after the announcement that Ukraine had been awarded a new status, listened to the Ministry's of Economy report on prospects for Ukraine's accession of the WTO. The new "status" could have brought Ukraine closer to entering the organization, the dream of market reform advocates, for the current global economic realities demonstrate that it is practically impossible to be an equal partner in international trade without being a member of WTO.

The World Trade Organization, founded on January 1, 1995 as a result of Uruguay round of negotiations (1986-1994), now unites 139 countries worldwide. Currently the Ukrainian government is engaged in bilateral negotiations with almost 30 states, including the EU, the United States, Australia, Canada and Japan. Accession of the WTO, an organization that controls 95 percent of the global foreign trade, has been declared as a foreign policy priority for Ukraine. The first efforts to join the GATT/WTO were made by Ukraine in 1993. The process of this country's movement to the global trade arrangement was officially launched on December 17, 1993, when the Ukrainian government

officially submitted the membership application to the GATT Secretariat. Later on, on November 30, 1994, the Ukrainian Foreign Trade Memorandum was submitted to the Working Commission in charge of considering Ukraine's application for joining the GATT. The process of bilateral negotiations with WTO member states was launched in 1997.

The current government has approached the objective of Ukraine's accession of the WTO directly and identified it as a priority of its official agenda, approved by the parliament. When reporting about the progress made in implementing its Program of Action, the Cabinet of Ministers stressed the issue of future WTO accession - something that had never appeared in the government's reports before. Specifically, the government's report read that "in order to fulfil international obligations, improve the customs tariffs on the condition of bringing it gradually to the GATT/WTO requirements, as well as liberalization of foreign trade and increase in foreign trade turnout between Ukraine and countries of the European Union, the government has adopted a number of important decisions on abolishing minimum customs rates, minimum prices for some kinds of imported goods, <...> bringing the technical regulation system in accordance with European norms, undertaking measures for protection of intellectual property rights and fighting against bootlegging of audio- and videoproducts." The report also argued that the "as a result of the efforts, undertaken by the government, the taxation mechanism in Ukraine is approaching the WTO norms and requirements" (Uriadovyi Kurrier, July 13, 2000).

One may agree that Ukraine has achieved some progress in liberalizing trade in accordance with the WTO norms and requirements. Those include, among other things, liquidation of the planning-based system of production and distribution, price liberalization, elimination of the state's monopoly in foreign trade, introduction of market-based hryvnia-to-dollar exchange rate. However, nowadays there are still some economic obstacles in that field: indicative export prices, excise taxes that break the regular national taxation provisions for imported goods, import licensing, export duty, etc. Notwithstanding the foreign experts' skepticism, government officials believe that the issue of Ukraine's membership in WTO may be considered in the summer of 2001 (Ukraina Moloda, July 25, 2000).

Obviously, the decision of the EU Council of Ministers of October 10, 2000, gave a reason for hope. If granted, the market economy status could be seen as a significant step forward to gaining the associate membership of the EU. In accordance with the EU Declaration, approved in June 1993 in Copenhagen, a leading selection criteria was "the existence of a functioning market economy, as well as the ability to cope with the pressure of competition and market forces within the Union." As part of its "multi-vector" policy, Ukraine is seeking to actively promote its EU integration policy in order to gain the full membership of the EU in future. Ukraine's willingness to become an associate member of the EU was officially manifested for the first time in mid-1998 during the first session of the Ukraine-EU Cooperation Council. According to Ukraine's Strategy of Integration with the EU (approved on June 11, 1998), gaining such status is the mid-term policy priority for Ukraine. A few weeks ago President of Ukraine approved the Program of Ukraine's Integration with the EU, drafted by the government. A key emphasis in that document is made on the process of adaptation of the Ukrainian legislation to that of the EU (Uriadovyi Kurrier, September 27, 2000).

Naturally, it would be naïve to hope that Ukraine's pro-market declarations would immediately result in a massive arrival of foreign investors. However, the decision of the EU Council of Ministers - should it be the decision on recognizing Ukraine as a market economy as the Ukrainian leadership wanted it so much could be seen primarily as a brilliant political step made by the EU towards Ukraine. The step that would support hopes that Ukraine would gradually rid itself of the unofficial status of the "buffer zone" and leaves Russia's "shadow" on the contemporary geopolitical map. Even though nowadays "the level of nominal GDP per capita in Ukraine is almost 40 times less than the average in 15 EU member states (Ukraina na shlyakhy yevropeiskoi integratsii, Analytical and practical reference book, Kyiv 2000).

Yet, no wonder happened this time. When looked at more carefully, the "consolation prize" proved to be different from what the Ukrainian leadership wanted it to be. Not that the "bad" Europe failed to do what the official Ukraine was hoping for. The distrust to the information about the "market economy status" reportedly granted to Ukraine, and the logical question "what for?" asked by anyone who is at least relatively informed about Ukraine's current economic condition are the consequences of Ukraine's own inertia in implementing the reforms. Almost immediately after the Ukrainian government official offered his interpretation of the EU decision, a representative of the EU Council of Ministers had to announce that the Ukrainians took the given for the desired. Instead, the representative said, the Council of Ministers decided to provide seven states of the former Soviet camp, Ukraine included, a special status of a market economy country for antidumping investigations. "The matter was not the market economy status", the EU official was quoted as saying (Segodnya, October 14, 2000). Hence, the market economy status for Ukraine remains a matter of the future, and the question "why is that?" sounds irrelevant in the context.